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SUBJECT: LABOUR PARTY OUTLINES ECONOMIC STRATEGY IN RUN-UP TO NEXT  
GENERAL ELECTION

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¶1. (U) Summary: The Labour Party's last conference before the general election saw ministers attempt to draw a dividing line between Labour and Conservative economic policy. Chancellor Darling acknowledged spending cuts and tax rises would be necessary to return public finances to a sustainable path. The Labour Party will halve the deficit within four years by raising taxes on the highest earners and cutting lower-priority public budgets. On financial services, the Labour Party will introduce legislation to curb bank bonuses and ensure the financial sector does not return to "business as usual." To stress the importance of climate change and green technology in Labour's new economic model, the Prime Minister committed to attend the Copenhagen climate conference. Business Secretary Lord Mandelson demonstrated Labour's commitment to the UK's manufacturing sector by extending the car scrappage scheme and pledging support to Vauxhall workers. Finally, Gordon Brown announced the Labour Party will introduce legislation committing HMG to raise its spending on aid to 0.7 percent of national income. End summary.

"Difficult Decisions" Remain on Spending Cuts and Tax Rises  
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¶2. (U) The UK economy is showing signs of recovery, but the recovery remains fragile and uncertain, declared Business Secretary Lord Mandelson in his remarks at the Labour Conference. His comments were echoed by Chancellor Darling who stood by his March Budget forecast that the UK economy will emerge from recession by the beginning of 2010. Darling said as the economy recovers, it will become increasingly important to set UK public finances on a sustainable path.

¶3. (U) Once economic recovery is ensured, difficult decisions will have to be made to reduce the budget. The PM declared Labour's intent to halve the budget deficit over four years, through cutting waste, costs, and lower-priority budget items. It will remove tax relief on pension contributions for higher earners, raise the top rate of tax to 50 percent for the highest incomes, introduce realistic public sector pay settlements, raise National Insurance by 0.5 percent in 2011 and continue to crack down on offshore tax havens. The Chancellor said he will introduce a new Fiscal Responsibility Act requiring the government to reduce the budget deficit year-on-year, to ensure the national debt remains sustainable in the medium term.

¶4. (U) In often strong terms, the Prime Minister outlined a clear dividing line between Labour and Conservative policy on reducing the deficit. He said the Conservatives had gotten the crisis wrong; they had made the wrong choices, the wrong recommendations, and would do the same again. He said the Conservative approach is to cut front line public services, while Labour would maintain and improve these services and increase taxes on the wealthiest. Chancellor Darling launched a personal attack on Shadow Chancellor George Osborne over the public finances debate, saying there has

been little that is "grown-up" about his performance so far. He said voters face a clear choice between a Labour government committed to public services and a "return to the Tory dark ages" -with Conservative MPs relishing the chance to swing the axe at the services millions rely on.

#### Financial Services - No Return to Business as Usual

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15. (U) Chancellor Darling said he will introduce legislation in the next few weeks to end the "reckless [bonus] culture that puts short-term profit over long-term success" and ensure there will be no return to business as usual in the financial sector. During his conference speech, Darling said he will end automatic bank bonuses and immediate pay-outs for senior management and will ensure bonuses are paid out over years, so they can be clawed back if not warranted by long-term performance. Prime Minister Gordon Brown said the new law will intervene on bankers' bonuses whenever they pose a risk to the economy. He said any bank directors who are negligent will be disqualified from holding any directorships in the future.

#### Climate Change - UK's Economic Future Must Be Green

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16. (U) A key component of the UK's economic recovery will be a focus on green technology and a low carbon economy. Noting that the UK is already a global leader in wind power, green cars, clean coal and carbon capture, the Prime Minister said it will lead again with new designated low carbon zones around the UK. He said a quarter of a million new green British jobs will be created, ensuring the UK's future economy is a green economy. To stress the importance of climate change in Labour's new economic model, the Prime Minister committed to attend the Copenhagen climate conference, a move welcomed by Climate Change Secretary Ed Miliband who, in his remarks, said Copenhagen is in peril and requires leadership. In

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his conference speech, Miliband announced GBP 10 million for a green neighborhoods program and GBP 20 million to support research and development in low carbon industries, including renewables. He said climate change is too big to reject nuclear options, so the Labour government will continue to develop plans for new nuclear power, including reforming planning laws which currently limit the speed of nuclear development. Miliband stressed the importance of carbon capture and storage, saying the industry could create 30,000-60,000 jobs in the UK. In the next Parliamentary session, HMG will propose to raise billions of pounds to invest in clean coal technology.

#### Lord Mandelson Calls for "Innovation Nation"

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17. (U) Recovery in the manufacturing sector remains particularly fragile, noted Business Secretary Lord Mandelson in his remarks. As such, the Labour Party remains committed to supporting the UK's car industry. To great applause, Mandelson announced an extension of the car scrappage scheme, with extra money for an additional 100,000 cars and vans. He said HMG will stand behind Vauxhall workers during the sale of GM Europe to Magna. Mandelson called attention to Labour's vision for Britain's industrial future, not just post-industrial. Britain, he said, must be a nation of both R and D - research and development - and bring its great ideas to the market. Britain must become an "innovation nation," with further investment in research and development and a focus on hi-tech advanced manufacturing. In support of this idea, the Prime Minister said HMG will create a new national investment corporation to provide finance for growing manufacturing and other businesses.

#### No Cross-Party Consensus on International Development

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18. (U) The Labour government will introduce legislation that commits it to raise spending on development assistance to 0.7 percent of national income. In his conference speech, Gordon Brown said Labour would keep its promises on international development and will enshrine them in UK law. Development Secretary Douglas

Alexander said there is no real cross-party consensus on international development, despite Conservative promises to ring-fence the aid budget. He said 96 percent of Conservative Parliamentary candidates in the upcoming election believe the aid budget should not be protected. He compared Labour's trebling of the aid budget since 1997 with the Tories halving the budget during their last period in government.

#### Conservative Response

19. (U) David Cameron and Shadow Chancellor George Osborne remained notably silent on the policies unveiled, and personal attacks made, at the Labour Party conference. However, Eric Pickles, the Conservative Party Chairman, told the media that Brown's speech had no vision and no argument. He criticized Brown for continuing to "treat people like fools" and failing to acknowledge the mistakes the government has made over the past 12 years. He condemned the speech as little more than a "long shopping list with no price tag" and said it was full of the same old political attacks.

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